

Introduction

Sedgwick County's Financial Plan is a tool for the Board of County Commissioners and Sedgwick County's management team. This plan enables decision makers to evaluate potential capital projects and operating budget initiatives in the context of the County's ability to pay for them. This long-term planning ensures informed financial decisions.

This Financial Plan addresses the period from 2002 to 2006. Three years of prior-year data are presented to provide an historical perspective on the County's financial operations. Amounts for 2002 and 2003 are estimated based on year-to-date 2002 and estimated 2003. Data for 2004 through 2006 are projected based on historical trends, economic outlook, current-level services, and planned changes to current-level services.

Sedgwick County uses the Modified Accrual Basis for budgeting. Revenue is not recognized until cash is received, while expenditure entries are made as soon as funds are encumbered. This conservative accounting strategy, mandated by the State of Kansas, has served Sedgwick County well in maintaining its strong financial position.

Throughout the Financial Plan section, revenue and expenditure figures have been adjusted to negate the effect of double-counted internal transfers, such as motor pool and administrative charges. The result is that this data may differ from numbers presented in other sections of the budget document.

Highlights

- ❑ Major budget uncertainties at the State level will prompt the County to make difficult choices down the road.

While the new economic realities that emerged during the later part of 2001 have done little damage to Sedgwick County finances, they have put the State of Kansas budgets in a crisis. Facing the possibility of having a zero balance in the State General Fund to begin state fiscal year 2003, many services provided by the County but funded by the State face serious funding uncertainties. Although not reflected in this version of the financial plan, these uncertainties will prompt Sedgwick County to make difficult choices in years to come.

- ❑ Expenditures continue to outpace current revenues.

Current revenue growth is expected to average \$6.8 million a year from 2002 to 2006, while the cost of providing services will grow at an average rate of \$9.7 million per year in the same time period. This disparity in revenue and expenditure growth on a continued basis will require the County to seek additional recurring revenues unless costs can be reduced to close the gap between revenue and expenditure growth.

- ❑ Allocation of funding ensures delivery of quality public services.

Service enhancements continue to be a high funding priority for Sedgwick County. Resources are allocated to reflect Commission priority and to ensure the effective delivery of basic and essential services in the Sedgwick County community. Technology will continue to play a vital role in enhancing the delivery of public services.

Section 1: Summary of Assumptions

Revenue Assumptions

- ❑ Assessed valuation will grow 5.3% for 2003 the budget and stabilize at the 4% growth rate each year thereafter.
- ❑ 95% of ad valorem taxes levied will be collected in during this planning period.
- ❑ Local retail sales taxes will increase 2.4% in 2002 and grow 3% each year after 2002.
- ❑ Motor vehicle tax receipts will remain flat in 2002, and grow 4.9% each year thereafter.
- ❑ Special Assessments, the largest revenue source in the Other Taxes category, will amount to 4.0 million in 2002 and decrease gradually after 2002 for lack of special assessed projects on the planning horizon. Penalties and interest revenue, the other major source in this revenue category, will stay above \$1.4 million a year from 2002 to 2006. 9-1-1 taxes will grow 2.5% per year, and back taxes will grow 1.5% a year.
- ❑ The revenue transfer (formerly known as demand transfer in the State of Kansas) portion of Intergovernmental revenues, such as City-County Revenue Sharing and Local Ad Valorem Tax Reduction (LAVTR) and special city-county highway funds, is estimated to decrease by 4% starting in the middle of 2002. State appropriated funds for Human Services will either remain flat or decrease slightly beginning in 2002. Other revenue from the state and federal government is projected to remain stable.
- ❑ Majority of Fees for Services will increase approximately 3.0% per year from 2002 to 2006. Registration fees (mortgage registration fees and officer's fees) and inspection fees are estimated to decrease by \$0.8 million in 2002.
- ❑ Investment income will decrease to \$8.5 million in 2002 to reflect the low interest rate. This revenue is expected to bounce back above \$9.5 million after 2002.
- ❑ Fines, licenses & permits, reimbursements, and miscellaneous revenues are estimated to grow about 1.0% per year.
- ❑ Sedgwick County's minimum fund balance requirement for January 1 is one payroll plus 5% of non-payroll expenditures, plus 2% of total current revenues.

Expenditure Assumptions

- ❑ Personnel Costs will increase an average of \$6.1 million a year in 2003, 2004, 2005 and 2006. The increase reflects annual growth of 5.0% in salaries and wages plus benefits. In 2002 and 2003, workers compensation charges were eliminated from the operating budgets to draw down reserves for those years. 2002 health insurance charges to operating budgets were also reduced to 75% of cost to draw down reserves. 2003 health insurance charges to operating budgets will return to full cost.
- ❑ Projected debt service on long term debt is: \$14,056,143 for 2002, \$14,754,677 for 2003, \$18,929,750 for 2004, \$22,936,508 for 2005 and \$23,135,480 for 2006, assuming level payments on future debts.
- ❑ Other contractual services will grow 4% per year.
- ❑ Commodities will increase 5% annually due to inflation and general growth of County operations.
- ❑ Capital Outlays will increase 5% each year to reflect increased use of technology.
- ❑ Cash funded Capital Improvements will largely mirror sales tax growth. The County will devote \$3 million each year to maintain its facilities, reflecting the County's effort to lessen the impact of capital improvement projects on its operating budgets.

Section 2: Fund Balance

To ensure the provision of services as scheduled throughout the year and in situations where certain revenues fall short of budget, a fund balance is necessary in the budgets. One goal of financial planning is to maintain a balance above the minimum fund balance requirement. The minimum requirement includes restricted and unrestricted balances.

Restricted balance covers the gap between current revenue and expenditure cash flows, ensuring that services could be provided for a short time even if commitments exceed current revenues. The restricted balance requirement is equivalent to the amount of cash necessary to cover commitments for the first fifteen days in January. Normally, one payroll and 5% of total non-payroll expenditures compose total commitments during that period. Therefore, the minimum level of restricted balance equals one payroll plus 5% of total non-payroll expenditures.

Unrestricted balance guarantees delivery of approved services even if total budgeted revenues fall short of expenditures at year-end. The minimum level of unrestricted balance is determined by revenue volatility. Revenues with little annual variation require little unrestricted cash to cover potential shortfalls. A sizable unrestricted balance to avoid reductions in budgeted services when revenues come in lower than budgeted must support revenues with drastic fluctuations. Analysis of revenue patterns for the past five years shows current revenues can be predicted from historical revenue data with an accuracy range of plus or minus 2% of total current revenues, so the minimum requirement for unrestricted balance is set at 2% of total current revenues.

Restricted and unrestricted cash fund balances are represented in Table 1 as minimum balance requirement. The minimum balance requirement continues to grow at an average of 4% per year as the cost of providing services continues to increase.

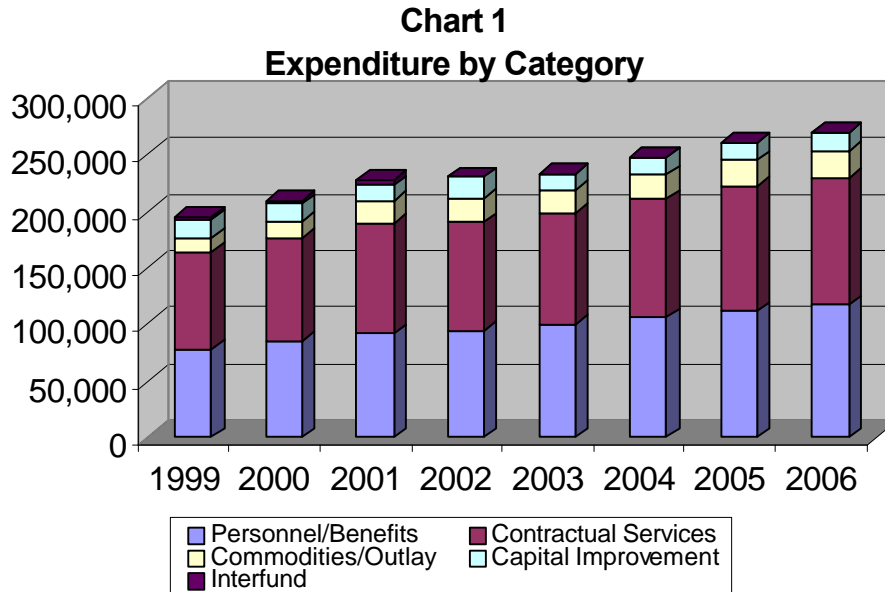
Reserves and designations are necessary to ensure fiscal integrity of County operations and supply funding for such activities as workers compensation claims, grant match funding, health insurance claims and equipment reserve. As illustrated in Table 1, reserves and designations represent approximately over 50% of the County's required fund balance.

Table 1
Minimum Fund Balance, Reserves, and Designations (In Thousands)

	1999	2000	2001	2002	2003	2004	2005	2006
Reserves & Designations	25,465	31,979	26,905	21,605	21,605	21,605	21,605	21,605
Minimum Balance Req.	12,961	13,965	15,281	15,254	15,526	16,318	17,010	17,556
Total	38,426	45,944	42,186	36,860	37,131	37,923	38,616	39,162

Section 3: Expenditures (1999-2006)

As shown in Chart 1, Sedgwick County total expenditures will increase \$3.1 million in 2003. This increase is attributable to higher spending on contractual services and personnel items. Employee compensation will grow 5.0%, contractual services will grow 3.2%, commodities and capital outlay will remain flat, and capital improvements will see a 25% reduction due to the planned completion of road projects funded by sales tax reserves. Beginning with 2004, total expenditures are projected to increase an average of 4.3% per year.



Between 1999 and 2001, Sedgwick County experienced higher than average expenditure growth of \$11 million per year, reflecting a period in which the County repositioned itself for the staffing of the expanded detention facility. This abnormal growth is also caused by paying community service providers through Sedgwick County for human service programs. Such programs were previously paid directly by the State of Kansas. Fueling the growth between 2003 and 2006 will be several major capital improvement projects on the planning horizon.

Table 2
Expenditures by Category (In Thousands)

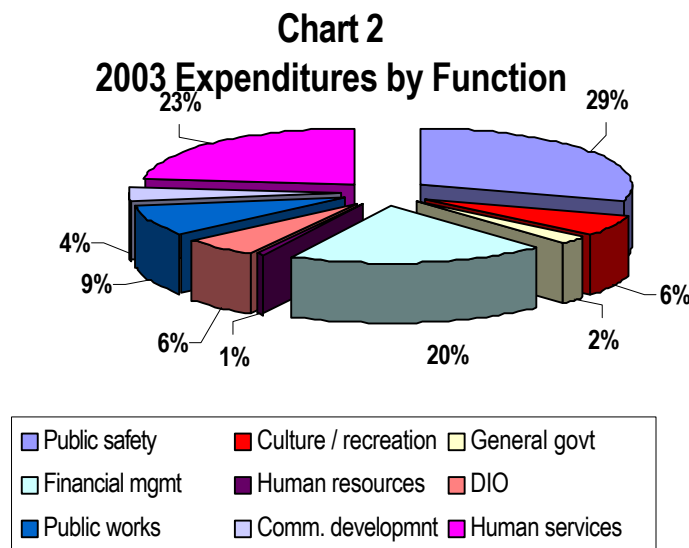
	1999	2000	2001	2002	2003	2004	2005	2006
Personnel/Benefits	77,870	85,322	91,622	94,683	99,418	106,260	111,573	117,152
Contractual Services	85,218	90,752	98,038	95,450	98,534	104,010	109,961	112,175
Commodities/Outlay	13,726	15,442	19,085	21,099	21,104	22,159	23,267	24,430
Capital Improvement	16,578	15,332	14,268	19,106	14,440	14,783	15,136	15,500
Interfund	1,181	2,697	4,941	0	0	0	0	0
Total	194,573	209,546	227,953	230,339	233,495	247,212	259,937	269,257

Chart 2 on the following page shows the 2003 allocation of resources throughout various services provided by Sedgwick County. The County devotes 29% of its resources to public safety

departments. Public Safety functions include services provided by the Sheriff, Detention Facilities, Sedgwick County Fire, Emergency Medical Services, District Coroner and others. The delivery of professional public safety services and improving the quality of life of Sedgwick County residents is identified as one of the priorities by the Board of Commissioners for 2003.

Twenty three percent of all County resources is allocated to Human Services, including such departments as COMCARE, Corrections, Aging, Physical Disability, and Community Health. Twenty percent is spent on the Financial Management Division, consisting of services provided by the Treasurer, Appraiser, Accounting, Budget, Purchasing and Risk Management. Nine percent of total County resources is allocated to the Division of Public Works. Six percent of total resources goes to the Division of Information and Operations (DIO) to provide a safe and comfortable working environment and effective tools for the delivery of County services.

Other expenditures by Sedgwick County include 6% to the Culture and Recreation Division that supports Sedgwick County Park, Lake Afton Park, Sedgwick County Zoo, Cowtown Museum, Kansas Coliseum and other departments, 2% to General Government, 4% to Community Development and 1% to Human Resources.



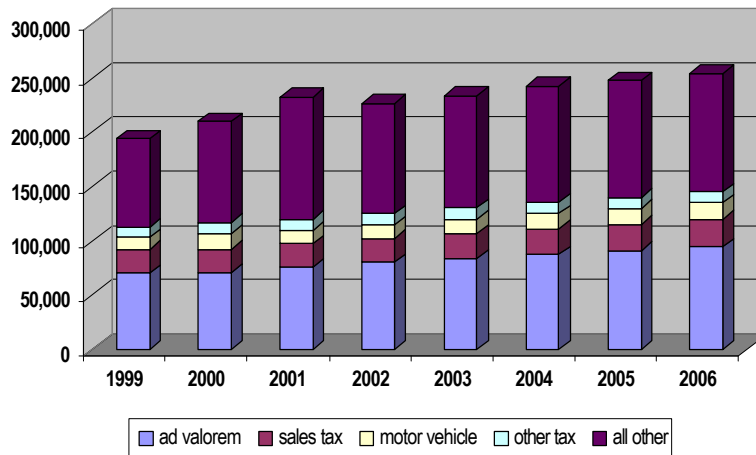
Section 4: Revenues (1999-2006)

This section reviews all revenues in Sedgwick County's budget. Fee schedules and tax rates are assumed to remain at the 2002 budget levels. The purpose of this section is to ascertain the amount of total revenues available without any fee schedule or tax rate increases.

Current Revenue Mix

In Sedgwick County's 2003 budget, tax revenue accounts for approximately 56% of total current revenues (See chart 3). Revenue is derived from ad valorem taxes 36%, local retail sales taxes 10%, motor vehicle taxes 6%, and other taxes 4%.

Chart 3
Current Revenue Mix



All other revenue categories combined, including intergovernmental revenue, fees for services, investment income, and other - provide the remaining 44% of projected revenue.

Ad Valorem Tax Revenue

Ad valorem (property) taxes play a vital role in financing Sedgwick County services. They fund services without self-funding capacity and provide funding to retire the County's long-term debt on facilities and infrastructure. This reliable revenue source has no attached mandates, as state and federal revenues often do. Traditionally, ad valorem taxes have enabled the County to meet taxpayer's needs for a safer and better community.

As shown in Table 3, from 1999 to 2000 the tax rate decreased 1 mill with the mill levy remaining constant at 28.6 since then. In 1998, mill levy increased to allow the County to set aside \$6.8 million for the expanded adult detention facility. After the opening of the facility, the tax rate was reduced to a level necessary to support ongoing County operations

In both 2000 and 2001, Sedgwick County presented a budget with a total mill levy decrease from previous years. No mill levy increase is projected for 2003. If tax rates remain at the 2003 level for the remainder of the planning period, ad valorem tax revenue increase will average approximately \$3.5 million a year from growth in assessed valuation from 2003 to 2006.

Table 3
Ad Valorem Tax Comparison

	1999	2000	2001	2002	2003	2004	2005	2006
Taxes (\$0.00)	70,082	70,859	75,847	79,867	84,083	87,447	90,944	94,582
Tax Rates (mills)	29.64	28.69	28.60	28.68	28.68	28.68	28.68	28.68

Sales Tax Revenue

Half of local retail sales tax revenue is distributed to the County and cities based on population, and half based on property tax levies. Three factors influence the County's local sales tax

revenue: (1) total taxable retail sales in Sedgwick County, (2) population in the unincorporated areas as a percentage of total County population, and (3) the County's ad valorem tax levies as a percentage of total taxes levied by the County and all cities in Sedgwick County.

Both the general economy and state statutes defining the scope of taxable retail sales affect the total amount of sales tax revenue. In 1993, when materials used in construction of new buildings and utilities used in manufacturing became taxable, the County's sales tax revenues increased by more than 10%. The 1995 Legislature exempted these two items from sales taxation, reducing 1996 growth to 2.0%.

Population growth in unincorporated areas is similar to that of cities. Consequently, the 50% population factor is not expected to create large variations in sales tax distributions between the County and cities in Sedgwick County. When a city or county governing body decides to levy additional property taxes, the 50% levy-based distribution of local sales tax revenue changes unless the County and all cities increase their property tax levies proportionally.

Table 4 shows amounts of local sales tax revenue collected from 1999 to 2006. The decrease in sales tax collection in 2000 occurred after the Department of Revenue changed computer systems. During the implementation of the new system, tax distributions were estimated. Barring legislative changes to the tax base, local retail sales tax is estimated to increase approximately 2.4% in 2002 and 3.0% thereafter.

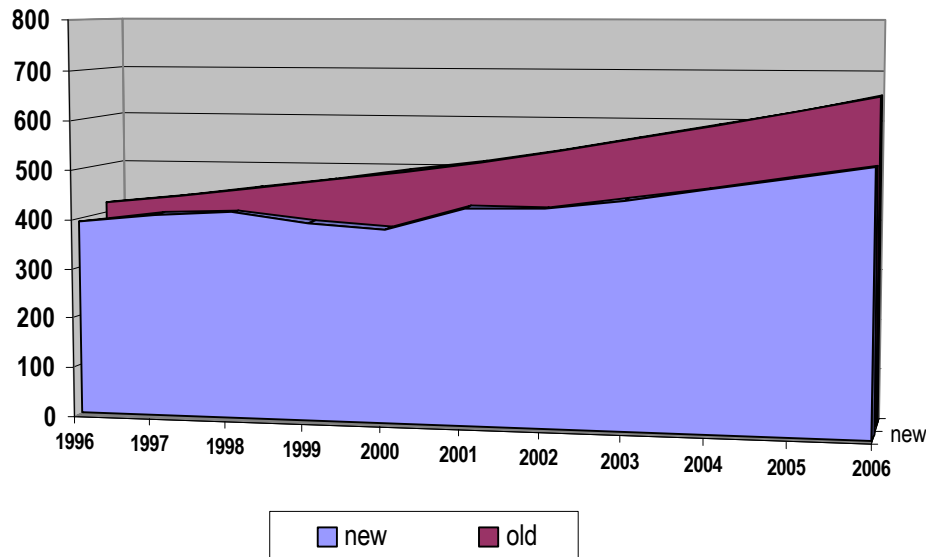
Table 4
Local Retail Sales Tax Collection (In thousands)

	1999	2000	2001	2002	2003	2004	2005	2006
Sales Tax	22,266	21,501	21,692	22,213	22,879	23,565	24,272	25,001

Motor Vehicle Tax Revenue

Until 1996, motor vehicles were assessed at 30% of their appraised values. Due to price increases for new motor vehicles, Sedgwick County's motor vehicle tax base had increased an average of 4.2% since 1987. This trend ended in 1996, when the State Legislature gradually reduced the assessment ratio to 20% by the year 2000. As Chart 4 shows, assessed valuation for motor vehicles was projected to have been \$417 million in 1996 under the prior law. Under the new law, the 1996 valuation was around \$391 million, a reduction of about \$26 million. In 2001, the valuation loss reached \$110 million. Motor vehicle valuation should resume normal growth after 2002, increasing at about 21.4 million a year.

Chart 4
Motor Vehicle Assessed Valuation



As shown in Table 5, motor vehicle tax revenue from 1999 to 2001 has varied. The fluctuation in 1999 and 2000 is a result of a temporary deviation from the normal timing of the distribution. Starting in 2003, it is projected that growth will even out at 4.9% per year.

Table 5
Motor Vehicle Tax Collections

	1999	2000	2001	2002	2003	2004	2005	2006
Tax Collected (\$000)	10,823	14,245	12,429	12,389	13,034	13,673	14,342	15,045
Tax Rate (mills)	29.64	28.69	28.60	28.68	28.68	28.68	28.68	28.68

Other Taxes

Other taxes include special assessments, 9-1-1 taxes, back taxes, penalties and interest on back taxes, and other miscellaneous taxes. They make up about 5% of total current revenues.

Other Revenue

The other revenues category includes all current non-tax revenues. As shown in Table 6, intergovernmental revenues and fees for services account for over 85% of the total.

Table 6
Other Revenues (In Thousands)

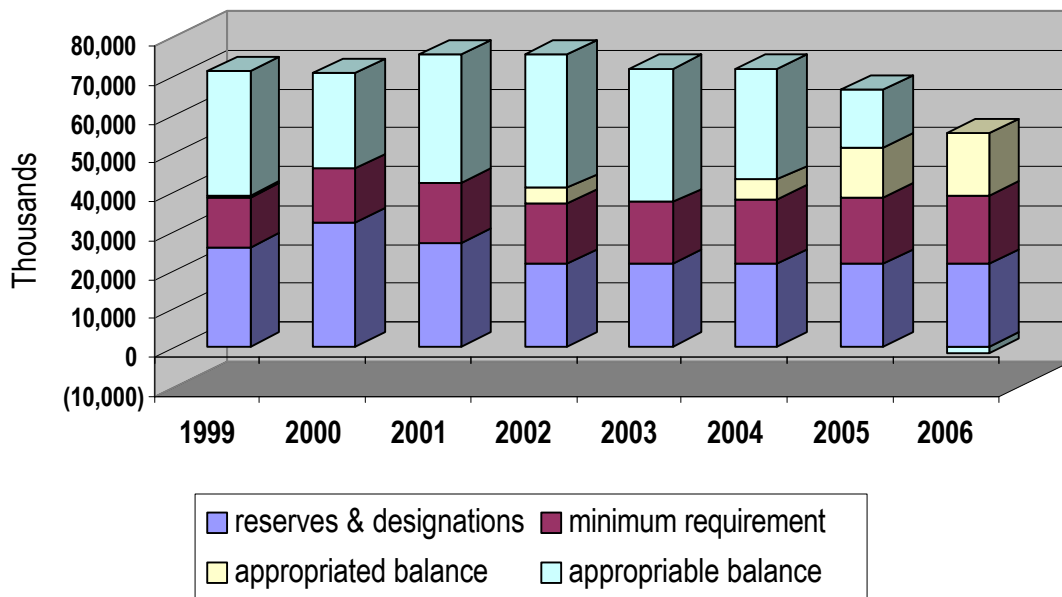
	1999	2000	2001	2002	2003	2004	2005	2006
Intergovernmental	39,390	41,505	44,850	43,090	43,473	43,541	43,637	43,760
Fees for Service	29,214	37,365	46,228	45,893	45,280	47,910	48,765	49,627
Investment Income	7,232	9,507	11,793	8,360	10,088	10,189	10,291	10,394
Other Revenue	5,831	4,454	9,469	4,495	4,516	4,534	4,549	4,560
Total	81,668	92,831	112,341	101,838	103,357	106,174	107,242	108,341

Investment income is largely determined by interest rates and cash balances available for investment. Transfers and miscellaneous revenues are small in volume and vary little from year to year. From 2002 to 2006 other revenues are projected to increase 1.3% a year.

Fund Balance

Prior to 1999, total fund balance remained constant as the County utilized previous fund balances to minimize tax increases. Chart 5 shows that in 2001 and 2002 the projected fund balance begins to decline as reserves and designations remain constant and minimum cash requirement experiences only slight growth. In essence, Sedgwick County began spending fund balances in the year 2002, as current revenue is not adequate to cover total operating expenditures.

Chart 5
Fund Balance as of January 1



Total Existing Resources and Total Expenditures

Chart 6 and Table 7 contrast total projected receipts from current revenue sources with total expenditures to arrive at year-end operating income. They illustrate the County's projected current revenue capacity to fund existing and future County services. Note that projected revenues represent no mill levy increase throughout the planning period. Starting in 2002, current revenue becomes insufficient to support projected expenditures. Assuming no mill levy increase, this posture will allow Sedgwick County to spend down accumulated fund balances.

As illustrated in chart 6 and table 7, as we approach the end of the planning period, the gap between current revenue and total expenditures will become so big that the County is projected to more than exhaust its minimum fund balance and reserves to fund its operations.

Chart 6
Operating Income

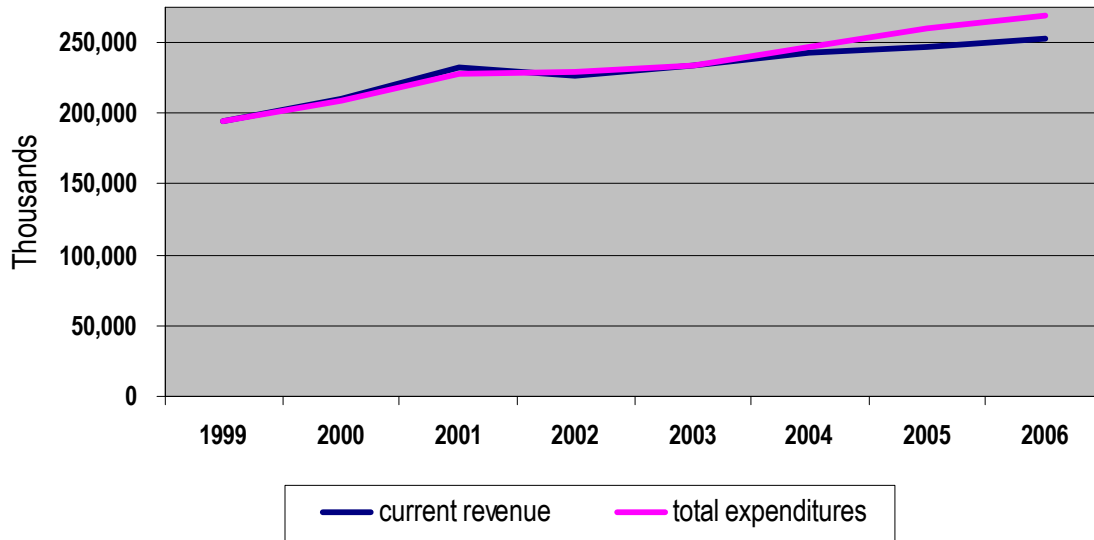


Table 7
Operating Income (In Thousands)

	1999	2000	2001	2002	2003	2004	2005	2006
Current Revenue	194,082	209,917	232,324	226,317	233,980	242,125	247,168	253,480
Operating Expenditures	194,573	209,546	227,953	230,339	233,495	247,212	259,937	269,257
Operating Income	-491	371	4,371	-4,022	485	-5,087	-12,770	-15,777

Section 5: Policy Alternatives

As we move toward 2006, maintaining a constant property tax rate will become more difficult, specifically as we reduce year-end fund balances in a decreasing revenue environment. Future capital improvements projects requiring debt service could impact projected expenditures with repayment of bond principal and interest. The following policy alternatives for financing future County services may need to be explored:

Increase Revenues

1. Earmark local sales taxes for public safety needs rather than roads.
2. Continue to seek new revenue sources.
3. Increase fees for County-provided services.
4. Reconsider an increase in ad valorem taxes.

Reduce Expenditures

1. Increase department accountability in services by connecting funding allocation to strategic plans and Commission priorities.
2. Concentrate on core services. Define what business the County is in and eliminate or reduce services that are not considered basic and essential.
3. Out-source services where an outside agency can provide the same service for less cost.
4. Reduce general obligation bonds for roads and bridges.

Financial Projection Worksheet

The following financial projection worksheet shows in aggregate form the revenues, expenditures, and fund balances for the years 1999 to 2006. As noted previously, totals presented in this projection have been adjusted for double counting and, therefore, do not agree with total figures in other sections of this budget document. The scenario presented here depicts the financial consequences of the governing body's policy choices in financing County services.

The attached worksheet serves as a baseline projection for evaluating the County's future financial condition. It assumes no increase in the rates of current tax and non-tax revenues while capturing all expenditure items on the planning horizon. Under this scenario, annual operating losses grow from an estimated \$4 million in 2002 to \$16 million in 2006, exhausting the County's appropriable fund balance by the end of 2005. Consequently, 2006 operations would put the County at a fund balance of \$38 million, \$1 million below Sedgwick County's minimum fund balance requirement.

The projection is a long term planning tool. It can and will change as more information becomes available. Scenarios presented here provide a framework for policy makers of Sedgwick County to evaluate policy options. Actual property taxes levied in future years may vary considerably from the projection.

Sedgwick County Revenues, Expenditures and Fund Balances
1999-2006 (All County Funds, Net of Transfers, Modified Accrual Basis)

Revenues	Actual			Estimated		Projected	
	1999	2000	2001	2002	2003	2004	2006
Ad Valorem Taxes	\$70,081,900	\$70,858,980	\$75,846,906	\$79,866,792	\$84,083,209	\$87,446,537	\$94,582,175
Motor Vehicle Taxes	10,822,536	14,245,468	12,428,930	12,388,645	13,033,858	13,672,517	15,045,251
Local Retail Sales Taxes	22,265,832	21,501,228	21,692,058	22,212,667	22,879,047	23,565,419	25,000,553
Other Taxes	9,243,817	10,480,434	10,016,064	10,011,184	10,627,099	11,266,953	10,511,217
Intergovernmental Revenue	39,389,753	41,505,435	44,850,096	43,090,189	43,472,528	43,541,043	43,759,994
Fees for Services	29,214,459	37,364,770	46,228,296	45,892,687	45,280,454	47,910,045	49,626,968
Investment Income	7,231,960	9,506,570	11,793,246	8,360,344	10,087,940	10,188,819	10,393,614
Other Revenues	5,831,477	4,454,080	9,468,894	4,494,628	4,515,813	4,533,986	4,560,355
Current Revenue	194,081,734	209,916,967	232,324,490	226,317,137	233,979,948	242,125,319	253,480,127
Less: Expenditures							
Personnel and Benefits	\$77,870,450	\$85,322,132	\$91,621,834	\$94,683,438	\$99,417,610	\$106,259,939	\$117,151,583
Contractual Services	85,217,638	90,752,488	98,038,205	95,450,423	95,739,698	96,696,533	99,673,824
Commodities & Capital Outlay	13,725,739	15,442,025	19,084,597	21,098,721	21,103,657	22,158,840	24,430,121
Operating Funded (OF, LST) CIP	16,578,298	15,332,343	14,267,614	19,106,334	14,439,524	14,782,709	15,500,276
Interfund Expenditure	1,180,750	2,697,299	4,940,936	0	0	0	0
Subtotal Expenditures	194,572,875	209,546,287	227,953,186	230,338,915	230,700,489	239,898,022	256,755,804
Anticipated Major Projects (debt service)							
Roads & Bridges Debt Service							
Special Assessment Debt Service							
Coliseum					1,142,550	1,491,288	2,319,542
City of Wichita Road Projects (Kellogg, Hoover in 02, 13th street in 03)					308,888	308,888	308,888
New JDF					0	261,554	4,620,782
Courthouse Improvements & 911 / EOC Expansion					1,342,642	1,778,565	1,778,565
Reduction needed					0	1,931,913	1,931,913
					0	1,541,750	1,541,750
					0	0	0
Total Operating Expenditures	194,572,875	209,546,287	227,953,186	230,338,915	233,494,570	247,211,980	269,257,244
Operating Income	(491,140)	370,680	4,371,304	(4,021,779)	485,378	(5,086,661)	(15,777,117)
Plus Reserves and Designations	25,464,923	31,979,340	26,905,379	21,605,379	21,605,379	21,605,379	21,605,379
Minimum Balance Requirement	12,961,358	13,964,636	15,280,634	15,254,260	15,525,847	16,317,606	17,556,202
Appropriated Balance	491,140	0	0	4,021,779	0	5,086,661	15,777,117
Appropriable Balance	31,870,493	24,723,478	32,852,745	34,157,340	34,371,130	28,492,711	(1,292,545)
Subtotal Balance (December 31)	70,296,774	70,667,454	75,038,758	71,016,979	71,502,357	66,415,695	37,869,036
Capital Project Balance (January 1)	3,912,127	4,580,477	3,812,978	991,667	991,667	991,667	991,667
Plus: Capital Project Proceeds	36,693,283	18,557,410	24,073,345	63,226,102	89,413,199	20,658,012	20,890,670
Less: Capital Projects Expenditure	36,024,933	19,324,909	26,894,656	63,226,102	89,413,199	20,658,012	20,890,670
Capital Project Balance (December 31)	4,580,477	3,812,978	991,667	991,667	991,667	991,667	991,667
Total Fund Balance (December 31)	74,877,251	74,480,432	76,030,425	72,008,646	72,494,024	67,407,362	38,860,703
Assessed Valuation	\$2,452,364,125	\$2,599,521,580	\$2,789,079,454	\$2,930,337,119	\$3,085,644,986	\$3,209,070,786	\$3,470,930,962
Mill Levy	29.638	28.693	28.600	28.684	28.684	28.684	28.684
Mill Levy Change	(0.555)	(0.945)	(0.093)	0.084	0.000	0.000	0.000